

# Memorandum



## City Manager's Office

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Date: February 16, 2017  
To: Mayor and Councilmembers  
From: Ken Jones, Deputy City Manager, CFO (x8504)  
Cecilia Robles, Municipal Budget Office Director (x8881)  
Through: Andrew Ching, City Manager  
Subject: Long-Range Financial Forecast Update

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### **Introduction**

During your February 16<sup>th</sup> Work Study Session, we will review the latest updates to the financial forecast, which will be used for upcoming budget decisions, and we will highlight significant changes since the November 2016 forecast. The financial forecast does not represent a budget recommendation; rather, it is intended to provide context for the development of the City Manager's recommended budget. We use the forecast to project future resources, demonstrate the projected costs of status quo operations and the potential financial impacts of various operational alternatives. This is an opportunity for Councilmembers to explore the financial impacts of potential policy changes and to examine improved service strategies.

### **General Economic Conditions and Projections**

The City's overall financial condition is strong and stable. The City has experienced steady revenue growth over the past few years and our five-year forecast for revenues remains positive, anticipating moderate growth in taxable sales and other revenue sources. Growth of taxable sales in Tempe's hotel industry remains strong and recent development activity has provided a big boost to construction sales tax revenues. Increases in other local taxes should provide for a stable local tax revenue stream for the remainder of the current fiscal year and into fiscal year 2017-18, with moderate growth projected in the subsequent years of the forecast. An economic downturn is inevitable at some point in our cyclical economy. We do not assume an economic downturn in this forecast but we do project healthy fund balances to overcome moderate recessionary trends.

### **Potential Budget Challenges**

Contributions to the Public Safety Personnel Retirement System (PSPRS) continue to be one of the most volatile factors in projecting annual personnel costs. PSPRS' projections of future minimum required employer contributions are wildly inaccurate, when they are provided at all. Tempe's current (FY 2016-17) minimum employer contribution to PSPRS is approximately \$19.1 million for sworn employees in police and fire. That amount will increase to approximately \$24.4 million in FY 2017-18, based on new contribution rates provided by PSPRS in December. PSPRS employer contribution rates for Tempe are currently 45.68% for Police and 53.67% for Fire employees (49.13% net of the Fire Insurance Premium Tax credit). The rates will increase to 56.57% and 64.60% (60.66% net of Fire Insurance Premium Tax credit), respectively, in FY 2017-18. PSPRS had previously provided estimates of only slight increases to employer contribution rates but, based on the information contained in the most recent actuarial reports, we are projecting more significant increases throughout the forecast period.

Proposition 206, approved by voters in 2016, increased the statewide minimum wage beginning January 2017 and requires incremental increases annually through 2020. It also requires large employers to provide sick leave to part-time workers beginning July 2017. The potential impacts to the City's General Fund are estimated to be \$288,000 in the first full year of implementation, increasing to over \$668,000 per year after the 4-year implementation. Options for addressing these potential cost increases will be discussed with the City Council during the forecast presentation.

### **Improved Forecasting Methodology**

The Municipal Budget Office employs sophisticated modeling techniques in the development of long-range revenue projections for the City's wide-ranging revenue sources. Revenue projections have been very accurate in the largest and most critical revenue categories over the years. In the two latest forecasts, the Budget Office has incorporated a new approach into the forecasting models to improve the accuracy of revenue projections. Regression analysis has been used in Tempe's revenue forecasting models for quite some time – plotting past revenue to develop patterns predictive of future revenue. The regression analysis is now being strengthened by analyzing the bias in the underlying economic data used in the models by comparing past revenue predictions with actual outcomes and adjusting our projections based on an acceptable risk of deviation. The result is a more risk-aware, bias-adjusted forecast, more indicative of future revenue.

### **Recent Policy Direction Provided by the City Council**

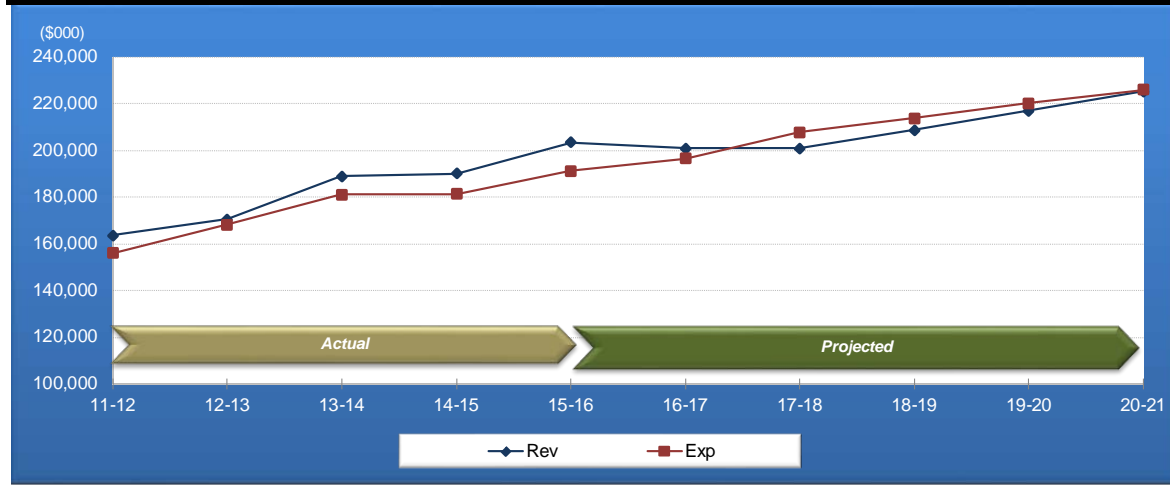
- 1) *Contributions to the Municipal Arts Fund* – By ordinance, a transfer equivalent to 1% of annual budgeted capital expenditures must be made to the Municipal Arts Fund. Specific direction was given by the City Council to suspend the transfer from the General and Transit Funds during the most recent economic downturn. After the introduction of the Arts Master Plan at the beginning of the current fiscal year, direction was given to restore the annual 1% General Fund contribution. The contribution is included in every year of the forecast and is estimated to be approximately \$217,000 from the General Fund in 2017-18.
- 2) *Use of restricted cash/revenue* – The City Council placed restrictions on the GPLET lease revenue from the Zarembo, Liberty and Grigio/Picerne developments, as well as the land sale proceeds from the Liberty development. In the past two years, \$6 million of the restricted cash was transferred to capital projects for park improvements at the City Council's direction. The current restricted balance in the General Fund (after the \$6 million transfer to parks projects) is approximately \$4.7 million. Projected revenue going forward is as follows:
  - Zarembo lease and parking revenue
    - Continuing revenue stream of \$600k-\$900k per year through 2042
  - Grigio/Picerne lease revenue
    - Continuing revenue stream of \$100k per year through 2020; \$128k per year 2021-2031; \$178k-\$315k per year 2032-2043
  - Liberty lease and land sale proceeds
    - Land sales are almost complete; ongoing lease revenue of approximately \$1.3 million per year through 2022, followed by continuously diminishing revenue to \$324k in 2026, the final year of lease revenue.

- 3) *Supplemental budgets tied directly to strategic planning* – The budget planning process includes opportunities for departments to identify supplemental funding needs. In the past, this process has involved a prioritization of the supplemental requests, which has been somewhat subjective and has not been guided by any formal performance measurement process. With the City Manager’s initiative to formalize the City’s strategic planning process, we have an opportunity to evaluate budget requests based on measurable performance standards, tied directly to City Council priorities. Supplemental budget proposals by the City Manager for 2017-18 year will be based on more clearly-identified strategically-defined needs.
- 4) *Employee compensation strategy* – The forecast assumes that compensation provisions contained in employee group Memorandums of Understanding (MOU’s) will be honored and that renewed MOU provisions for 2017-18 and beyond would provide for 3% step increases for employees moving through pay ranges in groups that do not have formal pay plans. It also assumes that pay ranges will be adjusted based on market study results.

#### **Forecast Models for Individual Operating Funds**

The following pages contain comments on significant changes to the forecasts of the City’s operating funds. Throughout this document, dollar amounts are expressed in thousands of dollars, so add three zeros to the numbers in fund models.

## General Fund



	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21
	Actual	Actual	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected
<b>Revenues (\$000)</b>										
Local Taxes	100,706	103,904	111,874	107,921	110,770	114,170	118,224	122,892	127,821	132,690
Intergovernmental	31,723	34,921	38,155	40,572	41,473	44,799	46,326	48,075	50,222	52,333
Bldg & Trades/Plan & Zoning	5,489	5,183	10,495	10,266	9,947	6,731	6,087	6,239	6,395	6,558
Cultural and Recreation	6,053	6,386	6,462	6,831	6,970	6,329	6,210	6,452	6,704	6,969
Fines, Fees and Forfeitures	7,732	8,132	8,190	8,436	8,580	7,487	6,137	6,377	6,626	6,887
Business Licenses	1,651	1,714	1,703	1,616	1,597	1,469	1,446	1,482	1,519	1,558
Interest Income	549	457	356	578	934	900	1,060	1,552	1,971	2,122
Franchise Fees	3,459	3,253	3,311	3,441	4,519	3,512	3,534	3,623	3,713	3,808
Other Revenue Sources	6,181	6,495	8,360	10,325	18,693	15,372	11,810	11,944	12,060	12,192
<b>Total Revenues</b>	<b>163,542</b>	<b>170,445</b>	<b>188,905</b>	<b>189,988</b>	<b>203,482</b>	<b>200,769</b>	<b>200,833</b>	<b>208,636</b>	<b>217,032</b>	<b>225,118</b>
<b>Expenditures (\$000)</b>										
Personnel Costs	124,555	134,347	143,609	144,246	152,638	157,423	164,053	170,139	174,448	179,340
Materials and Supplies	9,567	10,413	8,896	9,046	8,140	8,417	9,286	9,707	10,174	10,572
Fees and Services	24,211	22,471	28,421	26,352	28,509	28,838	29,583	30,386	31,212	32,072
Travel and Training	371	307	337	423	546	598	537	550	564	578
Non-Deprmt/Loan Repayment	2,118	2,126	2,192	1,867	1,391	1,912	1,956	1,492	1,222	945
Capital Outlay	1,472	1,572	1,500	2,385	2,727	3,102	3,082	2,291	2,484	2,199
Cash CIP Funding	0	0	0	2,821	3,239	3,229	3,012	3,130	3,255	3,377
Community Facilities District (incl. x-fers to	(493)	(138)	134	(92)	(170)	(269)	(297)	(325)	(355)	(385)
Special Assessments	0	2,064	1,006	1,016	1,017	1,017	1,017	1,017	1,017	1,017
Transportation Mnctce of Effort	701	1,177	626	1,150	1,215	1,300	1,300	1,300	1,300	1,300
Tourism and Convention Bureau	2,060	2,102	2,130	2,160	2,182	2,300	2,462	2,580	2,680	2,730
Internal Services/Adjustments	(8,606)	(8,247)	(7,895)	(10,023)	(10,311)	(11,514)	(11,920)	(12,317)	(12,632)	(12,973)
Municipal Arts Fund Contribution						191		206	229	120
Recurring Operating Supplementals						0	2,000	3,000	4,000	5,000
Non-recurring Operating Supplementals						0	1,500	500	500	0
<b>Total Expenditures</b>	<b>155,956</b>	<b>168,195</b>	<b>180,956</b>	<b>181,351</b>	<b>191,123</b>	<b>196,542</b>	<b>207,788</b>	<b>213,655</b>	<b>220,097</b>	<b>225,892</b>
<b>Net Operating Surplus/(Deficit)</b>	<b>7,586</b>	<b>2,251</b>	<b>7,949</b>	<b>8,637</b>	<b>12,359</b>	<b>4,226</b>	<b>(6,955)</b>	<b>(5,019)</b>	<b>(3,065)</b>	<b>(774)</b>
<b>Interfund Transfers</b>			<b>5,326</b>	<b>495</b>	<b>(5,383)</b>	<b>(515)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Change to Assignment of Fund Balance</b>			<b>(2,287)</b>	<b>685</b>	<b>(1,844)</b>	<b>(3,879)</b>	<b>(1,308)</b>	<b>(1,340)</b>	<b>(1,372)</b>	<b>(1,407)</b>
<b>Capital Improvements Reserve</b>		<b>(589)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Unassigned Fund Balance</b>	<b>50,890</b>	<b>52,552</b>	<b>63,540</b>	<b>73,357</b>	<b>78,488</b>	<b>78,321</b>	<b>70,058</b>	<b>63,700</b>	<b>59,262</b>	<b>57,082</b>
<b>Unassigned Fund Balance % of Revenue</b>	<b>31%</b>	<b>31%</b>	<b>34%</b>	<b>39%</b>	<b>39%</b>	<b>39%</b>	<b>35%</b>	<b>31%</b>	<b>27%</b>	<b>25%</b>

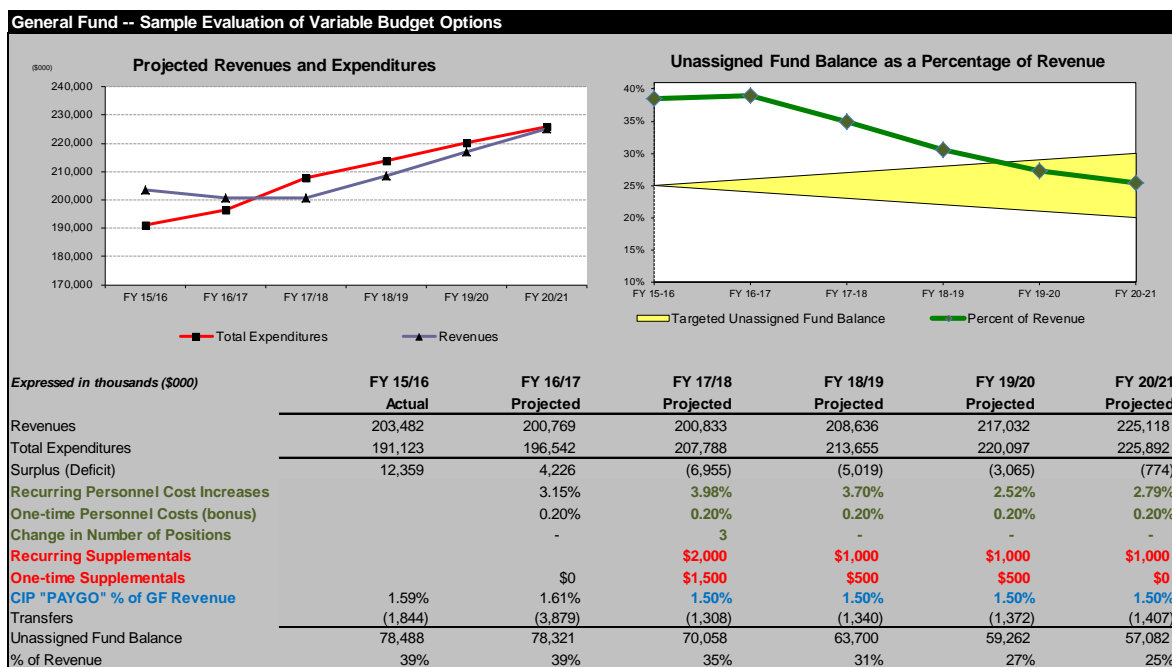
The figure above provides detail for budgeted accounts within the General Fund, with “sample” budget decisions incorporated from the interactive model appearing on the following page:

- 1) Projected growth in annual compensation represents the projected cost of contributions to retirement systems, salary step increases included in current MOU’s, 3% step increases for employee groups subsequent to the expiration of current MOU’s, projected market

adjustments to the salary ranges and increases to health/dental/life insurance plans as provided in the detailed assumptions on the last page of this report.

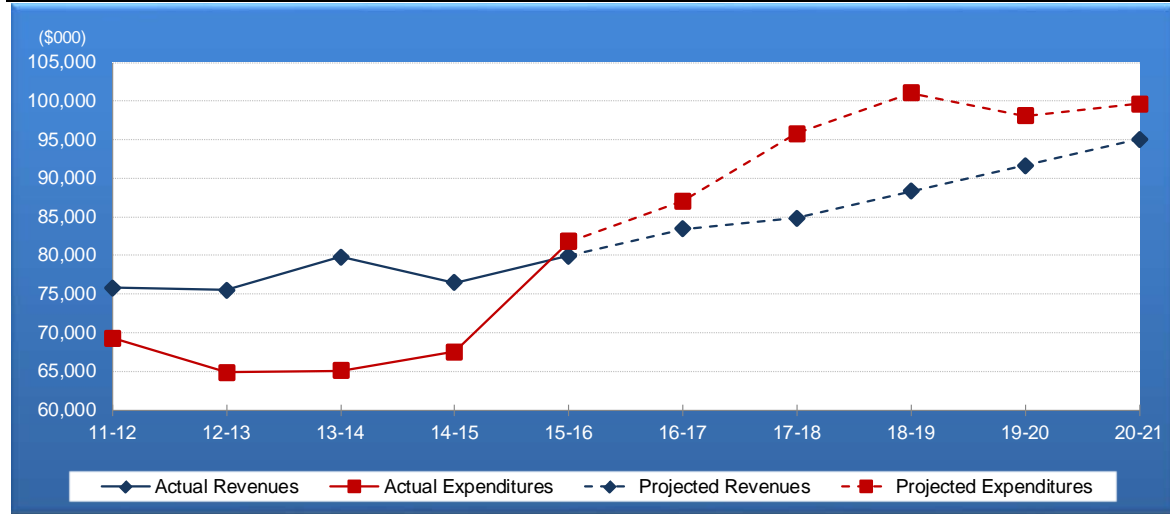
- 2) Recurring and non-recurring supplemental budget increases have been included in each year of the General Fund model to address funding needs necessary to maintain and enhance service levels.

The forecast includes a measured spend-down of fund balance without jeopardizing the stability of the fund in the future. This General Fund model is consistent with the City's strategy to use fund balance to soften the impact of the expiration of the temporary .2% sales tax in June 2014. The projected growth variables displayed in the model are not recommendations by management at this point, but examples to demonstrate how projected resources could be allocated in future years and still comply with the fund balance policy. The graph on the right side of the figure shows how the unassigned fund balance stays above the policy minimum of 20% throughout the forecast period, as required by policy.



This forecast for the General Fund shows improved revenue projections from the last forecast. Several non-recurring revenues helped bolster the fund balance. For example, the City received \$3 million related to a re-negotiated lease of the Buttes Hotel site and another \$740,000 as a result of a change in ownership at the same hotel. Increased PSPRS contributions have added to the projected recurring personnel costs throughout the forecast and necessitated reductions in supplemental budget funding and cash CIP funding throughout the forecast.

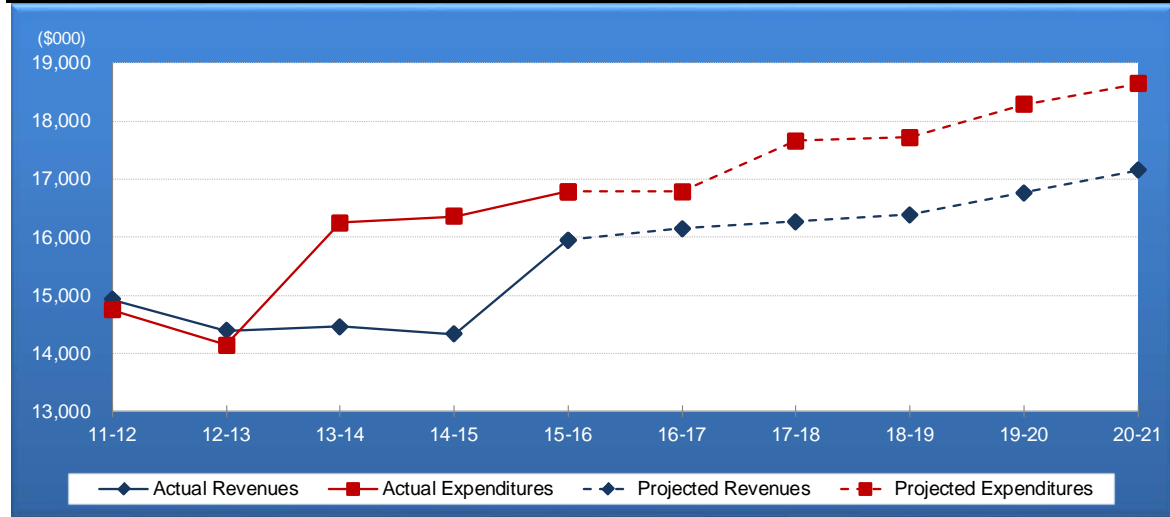
## Water/Wastewater Enterprise Fund



	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21
	Actual	Actual	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected
<b>Revenues (\$000)</b>										
Charges for Service-Water	40,185	42,014	45,200	44,584	46,720	49,259	50,226	52,589	55,065	57,659
Charges for Service-Wastewater	32,275	31,643	32,374	30,996	31,863	32,706	33,098	33,920	34,762	35,626
Interest Income	267	228	257	382	566	600	735	936	940	858
Land and Facility Rental	520	520	-	-	-	-	-	-	-	-
Loan Repayment	-	-	-	-	-	182	182	182	182	182
Other Miscellaneous Revenue	2,541	1,082	1,940	479	775	688	629	659	667	730
<b>Total Revenues</b>	<b>75,787</b>	<b>75,487</b>	<b>79,772</b>	<b>76,441</b>	<b>79,924</b>	<b>83,436</b>	<b>84,870</b>	<b>88,287</b>	<b>91,617</b>	<b>95,055</b>
<b>Expenditures (\$000)</b>										
Personnel Costs	15,715	15,477	15,384	13,732	13,923	15,160	15,394	15,618	15,976	16,291
Materials and Supplies	4,660	4,962	3,757	3,859	4,838	4,694	4,528	4,756	4,871	5,580
Fees and Services	12,029	6,908	7,720	8,093	12,582	14,766	18,023	18,706	19,416	20,159
Travel and Training	76	52	52	105	88	100	102	104	107	110
Debt Service	32,694	33,199	33,732	35,282	44,042	41,363	50,392	54,412	50,179	49,723
Transfers to CIP	430	223	214	536	500	3,408	612	624	571	418
Municipal Arts Contribution	-	-	-	-	-	337	373	339	316	513
Internal Service Charges	1,698	1,940	1,970	3,463	3,443	2,603	2,686	2,748	2,810	2,875
Indirect Cost Allocations	1,985	2,104	2,239	2,422	2,380	3,633	3,681	3,766	3,850	3,940
Contingency	-	-	-	-	-	1,000	-	-	-	-
<b>Total Expenditures</b>	<b>69,288</b>	<b>64,866</b>	<b>65,069</b>	<b>67,490</b>	<b>81,796</b>	<b>87,063</b>	<b>95,792</b>	<b>101,071</b>	<b>98,096</b>	<b>99,608</b>
<b>Net Operating Surplus/(Deficit)</b>	<b>6,500</b>	<b>10,621</b>	<b>14,703</b>	<b>8,950</b>	<b>(1,872)</b>	<b>(3,628)</b>	<b>(10,922)</b>	<b>(12,784)</b>	<b>(6,479)</b>	<b>(4,553)</b>
<b>Accrual Basis Adjustments</b>	<b>-</b>	<b>(3,366)</b>	<b>(3,533)</b>	<b>(6,835)</b>	<b>3,906</b>					
<b>Unassigned Fund Balance</b>	<b>46,750</b>	<b>54,006</b>	<b>65,176</b>	<b>67,291</b>	<b>69,326</b>	<b>65,698</b>	<b>54,777</b>	<b>41,992</b>	<b>35,513</b>	<b>30,960</b>
<b>Unassigned Fund Balance as a % of Revenue</b>		<b>72%</b>	<b>82%</b>	<b>88%</b>	<b>87%</b>	<b>79%</b>	<b>65%</b>	<b>48%</b>	<b>39%</b>	<b>33%</b>

The Water/Wastewater Fund projections assume the implementation of rate adjustments developed in the last utility rate study. Since that rate study, one planned adjustment to single-family residential rates was postponed and the Public Works Department has proposed significant increases to the water and wastewater capital improvement program. The forecasted revenues and expenditures above will need to be adjusted after the upcoming 2017 utility rate study.

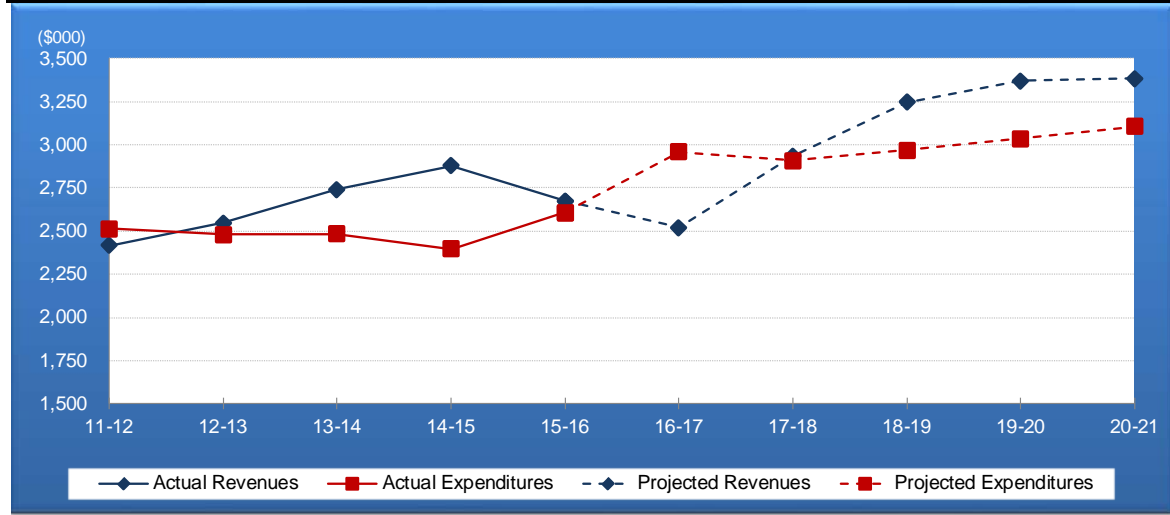
## Solid Waste Enterprise Fund



	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21
	Actual	Actual	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected
<b>Revenues (\$000)</b>										
Charges for Services	14,866	14,447	14,400	14,217	15,320	16,033	16,036	16,273	16,657	17,033
Interest Income	35	27	18	18	27	30	35	16	-	-
Other Revenue Sources	26	(81)	43	95	607	91	194	96	110	117
<b>Total Revenues</b>	<b>14,927</b>	<b>14,394</b>	<b>14,461</b>	<b>14,330</b>	<b>15,954</b>	<b>16,154</b>	<b>16,265</b>	<b>16,385</b>	<b>16,767</b>	<b>17,149</b>
<b>Expenditures (\$000)</b>										
Personnel Costs	5,466	5,515	5,356	5,125	5,068	5,784	6,011	6,168	6,373	6,482
Materials and Supplies	170	219	180	188	532	204	209	214	219	225
Fees and Services	3,487	3,639	3,743	4,127	3,895	3,647	3,650	3,719	3,729	3,740
Travel and Training	40	4	3	25	30	18	19	19	20	20
Capital Outlay	1,243	312	2,285	1,988	2,421	1,600	2,380	2,124	2,352	2,430
CIP - Cash Funded	-	-	-	-	-	-	141	23	-	-
Internal Service/Adjustments	3,186	3,049	3,359	3,709	3,628	3,847	3,988	4,144	4,249	4,364
Indirect Cost Allocations	807	866	953	993	1,105	1,169	1,212	1,259	1,291	1,326
Transfers	350	541	371	202	107	19	53	53	53	54
Contingency	-	-	-	-	-	500	-	-	-	-
<b>Total Expenditures</b>	<b>14,748</b>	<b>14,144</b>	<b>16,251</b>	<b>16,357</b>	<b>16,786</b>	<b>16,789</b>	<b>17,661</b>	<b>17,722</b>	<b>18,287</b>	<b>18,642</b>
<b>Net Operating Surplus/(Deficit)</b>	<b>179</b>	<b>249</b>	<b>(1,790)</b>	<b>(2,027)</b>	<b>(832)</b>	<b>(634)</b>	<b>(1,396)</b>	<b>(1,337)</b>	<b>(1,520)</b>	<b>(1,493)</b>
<b>Accrual Basis Adjustments</b>		<b>100</b>	<b>(91)</b>	<b>(1,196)</b>	<b>1,258</b>					
<b>Ending Fund Balance</b>	<b>7,078</b>	<b>7,427</b>	<b>5,547</b>	<b>2,323</b>	<b>2,749</b>	<b>2,114</b>	<b>718</b>	<b>(619)</b>	<b>(2,139)</b>	<b>(3,632)</b>
<b>Fund Balance as a % of Revenue</b>		<b>52%</b>	<b>38%</b>	<b>16%</b>	<b>17%</b>	<b>13%</b>	<b>4%</b>	<b>-4%</b>	<b>-13%</b>	<b>-21%</b>

This model assumes continued implementation of the rate adjustments presented to the City Council by Public Works after their last comprehensive rate study. Public Works has updated solid waste revenue projections based on recent legislative action that increased competition from the private sector for commercial clients. These updates show a deteriorating operating fund and will need to be taken into account in the upcoming 2017 utility rate study in order to appropriately adjust rates, operations, or both.

### Golf Enterprise Fund

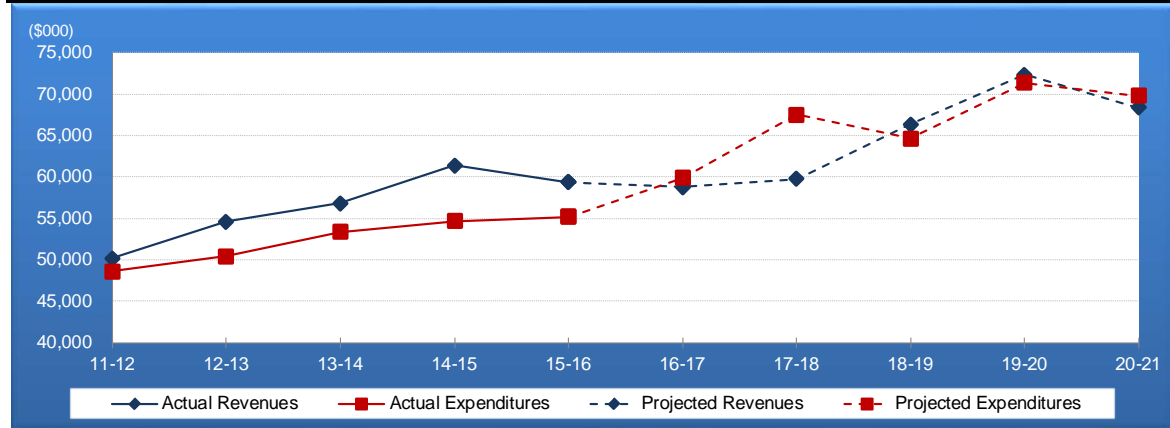


	11/12 Actual	12/13 Actual	13/14 Actual	14/15 Actual	15/16 Actual	16/17 Projected	17/18 Projected	18/19 Projected	19/20 Projected	20/21 Projected
<b>Revenues (\$000)</b>										
Greens Fees	1,509	1,600	1,809	1,908	1,822	1,825	2,028	2,360	2,486	2,499
Rental Charges	581	645	639	555	495	466	675	609	609	609
Range Fees	173	189	191	194	167	164	187	187	187	187
Interest Income	(2)	(1)	(1)	8	19	3	-	-	-	-
Other Revenue Sources	155	114	103	213	169	65	45	91	87	87
<b>Total Revenues</b>	<b>2,417</b>	<b>2,548</b>	<b>2,741</b>	<b>2,878</b>	<b>2,673</b>	<b>2,522</b>	<b>2,936</b>	<b>3,248</b>	<b>3,370</b>	<b>3,382</b>
<b>Expenditures (\$000)</b>										
Personnel Costs	791	649	692	559	506	544	545	557	571	584
Materials and Supplies	451	449	380	340	386	530	543	556	570	585
Fees and Services	923	937	969	1,114	1,256	1,085	1,055	1,076	1,107	1,139
Capital Outlay	85	193	87	96	138	267	224	224	224	224
Internal Service Charges	197	135	205	148	187	199	204	211	217	223
Indirect Cost Allocations	66	115	150	139	134	152	156	161	165	170
Debt Service	-	-	-	-	-	182	182	182	182	182
<b>Total Expenditures</b>	<b>2,512</b>	<b>2,479</b>	<b>2,484</b>	<b>2,396</b>	<b>2,607</b>	<b>2,960</b>	<b>2,908</b>	<b>2,968</b>	<b>3,037</b>	<b>3,106</b>
<b>Net Operating Surplus/(Deficit)</b>	<b>(96)</b>	<b>69</b>	<b>257</b>	<b>481</b>	<b>65</b>	<b>(438)</b>	<b>27</b>	<b>279</b>	<b>333</b>	<b>277</b>
<b>Accrual Basis Adjustments</b>		<b>(293)</b>	<b>(259)</b>	<b>(205)</b>	<b>(174)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Ending Fund Balance</b>	<b>(473)</b>	<b>(697)</b>	<b>(700)</b>	<b>(423)</b>	<b>(531)</b>	<b>(970)</b>	<b>(942)</b>	<b>(663)</b>	<b>(330)</b>	<b>(53)</b>
<b>Fund Balance as a % of Revenue</b>		<b>-27%</b>	<b>-26%</b>	<b>-15%</b>	<b>-20%</b>	<b>-38%</b>	<b>-32%</b>	<b>-20%</b>	<b>-10%</b>	<b>-2%</b>

The Golf Enterprise Fund continues to generate increased revenues and is projected to perform slightly better than break-even in the remaining years of the forecast. Projected surpluses in future years will be used for asset maintenance/replacement, while maintaining a fund balance at or above the 15% policy level. Improvements to the irrigation system at the Rolling Hills Golf Course should further stabilize the fund. User fees in 2015-16 and 2016-17 reflect a short shut-down of Rolling Hills during the irrigation system repairs.



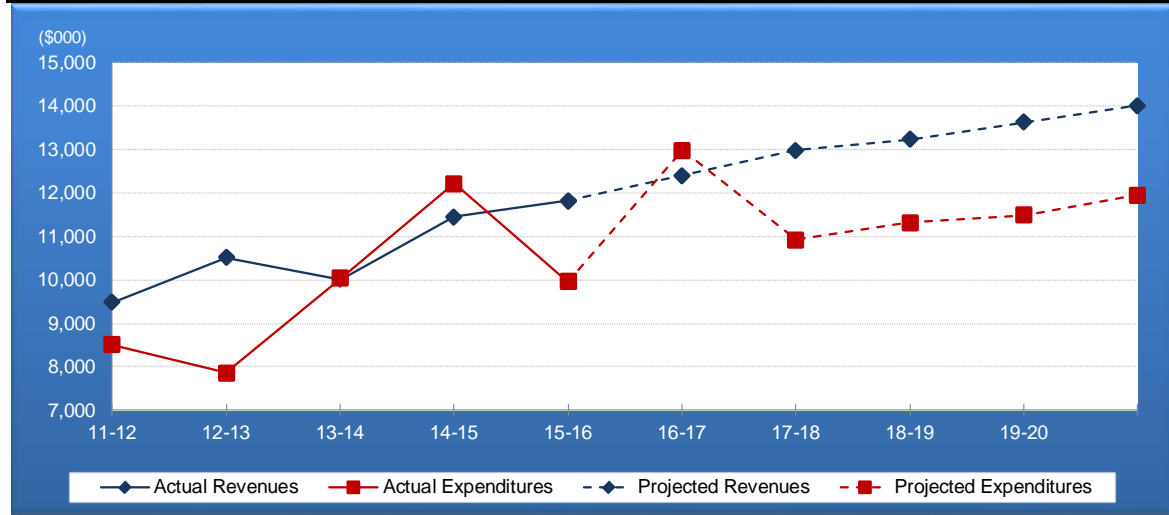
## Transit Special Revenue Fund



	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21
	Actual	Actual	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected
<b>Revenues (\$000)</b>										
Transit Tax	30,172	30,087	33,539	36,148	37,289	36,020	37,198	38,679	40,254	41,794
EVBOB Maint & Fuel (RPTA)	-	182	6,312	5,853	4,492	5,018	5,635	5,136	5,277	5,355
PTF Funding	2,270	2,166	2,145	2,233	3,412	3,962	4,766	4,358	5,006	5,108
Federal Grants - Bus and Light Rail	3,198	7,147	3,887	3,298	2,762	2,807	2,324	2,877	2,943	2,974
Out of Jurisdiction Service Revenue	7,960	7,357	(76)	630	-	-	-	-	-	-
Bus Fares	-	-	4,992	4,519	4,136	4,508	4,018	4,751	4,856	4,970
Light-Rail Fares	3,521	3,814	3,603	3,696	3,047	3,751	3,036	3,756	3,868	3,984
Street Car Fares	-	-	-	-	-	-	-	-	-	430
Alt Fuel Credit	626	1,585	86	913	1,429	-	-	-	-	-
Bond Proceeds - Streetcar	-	-	-	-	-	-	-	4,250	7,500	1,250
Miscellaneous Revenue	2,433	2,259	2,342	4,054	2,772	2,688	2,767	2,547	2,603	2,513
<b>Total Revenues</b>	<b>50,180</b>	<b>54,596</b>	<b>56,831</b>	<b>61,344</b>	<b>59,339</b>	<b>58,754</b>	<b>59,745</b>	<b>66,354</b>	<b>72,307</b>	<b>68,379</b>
<b>Expenditures (\$000)</b>										
Personnel Costs	2,680	2,912	3,032	2,248	2,225	2,532	2,579	2,641	2,695	2,755
Transportation Center O&M	267	231	362	330	405	493	471	483	495	507
Bus Operations	23,255	23,941	23,312	23,139	24,061	26,372	29,365	27,312	27,907	28,314
Bus Operations-EVBOM - Fuel & Maint	5,745	4,786	5,619	5,130	3,740	4,727	5,102	4,832	5,020	5,147
Light Rail Operations	8,228	9,993	9,262	9,368	8,969	10,563	11,240	10,541	11,304	12,044
Security - Transit Operations	362	397	401	460	475	469	492	504	516	529
Transit Store - Bus Media	733	771	618	573	556	815	833	853	874	896
Admin / Marketing / Planning / Signal Systems	364	418	521	595	503	844	1,015	1,040	1,065	1,092
Bus Stop & Bike Path Maintenance	384	680	738	766	878	1,149	1,336	1,369	1,403	1,438
Operating Capital Outlay	49	214	168	138	231	120	149	153	156	160
Street Car O&M	-	-	-	-	-	-	-	-	-	4,300
ORBIT South of US 60	-	-	-	-	-	-	1,200	1,230	1,261	1,292
New Transit Tax CIP Funding	367	959	3,760	5,390	6,476	4,727	6,547	2,822	4,698	3,533
Municipal Arts Contribution	-	-	-	-	-	54	66	28	47	35
Capital Funding Transfer - Streetcar	-	-	-	-	-	-	-	4,250	7,500	1,250
Debt Service	5,313	4,247	4,668	4,658	4,663	4,669	4,654	4,033	4,034	4,034
Internal Service Charges/Adjustments	868	840	920	1,873	2,020	2,253	2,282	2,335	2,387	2,443
Contingency	-	-	-	-	-	112	178	188	-	-
<b>Total Operating Expenditures</b>	<b>48,615</b>	<b>50,390</b>	<b>53,379</b>	<b>54,668</b>	<b>55,202</b>	<b>59,898</b>	<b>67,507</b>	<b>64,613</b>	<b>71,362</b>	<b>69,770</b>
<b>Net Operating Surplus/(Deficit)</b>	<b>1,566</b>	<b>4,206</b>	<b>3,451</b>	<b>6,676</b>	<b>4,137</b>	<b>(1,144)</b>	<b>(7,762)</b>	<b>1,741</b>	<b>944</b>	<b>(1,391)</b>
<b>Accrual Basis Adjustments</b>		<b>(49,585)</b>	<b>41</b>	<b>24</b>	<b>110</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Unassigned Fund Balance</b>	<b>72,956</b>	<b>27,578</b>	<b>31,070</b>	<b>37,770</b>	<b>42,017</b>	<b>40,873</b>	<b>33,111</b>	<b>34,851</b>	<b>35,796</b>	<b>34,405</b>
<b>Unassigned Fund Balance as a % of Revenue</b>		<b>51%</b>	<b>55%</b>	<b>62%</b>	<b>71%</b>	<b>70%</b>	<b>55%</b>	<b>53%</b>	<b>50%</b>	<b>50%</b>
<b>Fund Balance Assigned for Debt Retirement</b>			<b>8,500</b>	<b>8,500</b>	<b>8,500</b>	<b>8,500</b>	<b>8,500</b>	<b>-</b>	<b>-</b>	<b>-</b>

The Transit Fund is relatively stable with a healthy fund balance. The model includes estimated operating costs for the proposed streetcar project and the expansion of Orbit bus services farther south in the City. The model also includes a \$13 million commitment to fund a portion of the construction of the streetcar project, as well as the offsetting \$13 million revenue anticipated from the issuance of bonds to be repaid from property owners along the streetcar route.

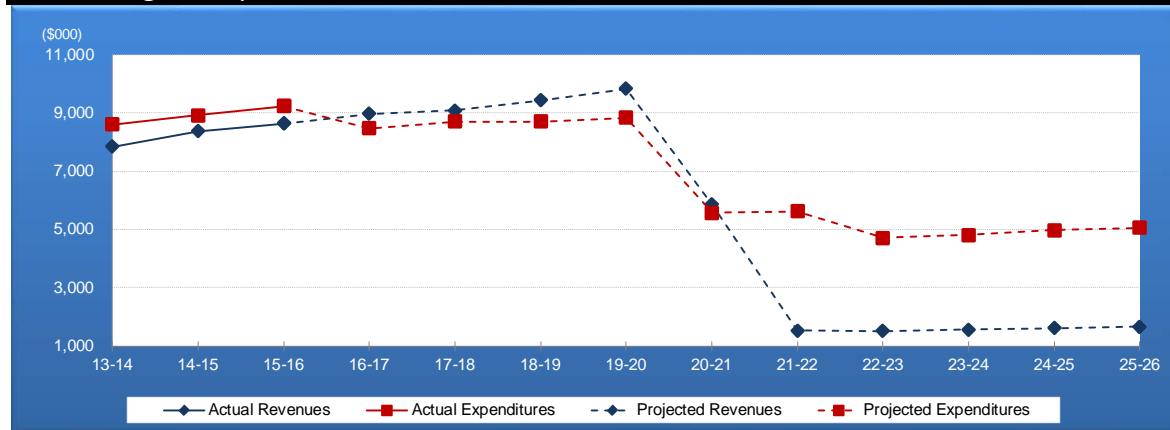
### Transportation (HURF) Special Revenue Fund



	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21
	Actual	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected	Projected
<b>Revenues (\$000)</b>										
Highway User Revenue Tax	8,098	8,856	9,125	10,014	10,458	10,486	11,608	11,841	12,234	12,606
Maintenance of Effort Transfer	701	1,177	626	1,150	1,215	1,300	1,300	1,300	1,300	1,300
Miscellaneous	682	479	257	282	150	613	77	92	98	105
<b>Total Revenues</b>	<b>9,481</b>	<b>10,512</b>	<b>10,009</b>	<b>11,446</b>	<b>11,823</b>	<b>12,398</b>	<b>12,985</b>	<b>13,234</b>	<b>13,632</b>	<b>14,011</b>
<b>Expenditures (\$000)</b>										
Personnel Costs	3,051	3,542	3,917	4,058	4,207	4,588	4,618	4,723	4,769	4,816
Materials and Supplies	424	457	580	609	619	736	746	764	783	803
Fees and Services	1,892	1,936	2,058	2,059	2,163	2,473	2,548	2,626	2,707	2,791
Travel and Training	10	12	8	8	15	18	18	19	19	20
Capital Outlay	107	77	227	663	590	645	218	398	373	535
Debt Service	1,550	500	-	-	-	-	-	-	-	-
CIP - Cash Funded	-	-	1,427	3,277	300	2,319	539	510	500	600
Loan Repayment	3	3	3	5	5	5	5	5	5	5
Internal Service Charges	835	684	1,062	678	1,190	1,239	1,255	1,284	1,313	1,343
Indirect Cost Allocations	641	654	758	861	870	960	973	995	1,018	1,041
<b>Total Expenditures</b>	<b>8,514</b>	<b>7,866</b>	<b>10,041</b>	<b>12,216</b>	<b>9,957</b>	<b>12,983</b>	<b>10,919</b>	<b>11,325</b>	<b>11,487</b>	<b>11,954</b>
<b>Net Operating Surplus/(Deficit)</b>	<b>967</b>	<b>2,646</b>	<b>(32)</b>	<b>(771)</b>	<b>1,866</b>	<b>(584)</b>	<b>2,066</b>	<b>1,908</b>	<b>2,145</b>	<b>2,057</b>
<b>Accrual Basis Adjustments</b>	<b>105</b>	<b>(1)</b>	<b>(182)</b>	<b>35</b>	<b>105</b>					
<b>Ending Fund Balance</b>	<b>5,474</b>	<b>8,119</b>	<b>7,906</b>	<b>7,170</b>	<b>9,141</b>	<b>8,556</b>	<b>10,622</b>	<b>12,531</b>	<b>14,675</b>	<b>16,732</b>
<b>Fund Balance as a % of Revenue</b>		<b>77%</b>	<b>79%</b>	<b>63%</b>	<b>77%</b>	<b>69%</b>	<b>82%</b>	<b>95%</b>	<b>108%</b>	<b>119%</b>

The Transportation Fund receives the large majority of its funding from State-shared Highway User Revenue Funds (HURF). The City uses the money to fund street improvements. After sweeping over \$6.8 million from the City's distribution from 2004 through 2014, the Legislature partially restored the annual appropriations. For FY 2015-16 and forward, HURF tax collections are expected to improve slightly, providing additional cash-funding for street projects. The "CIP – Cash Funded" line item will be increased during the City's CIP process this year.

## Performing Arts Special Revenue Fund



	13/14 Actual	14/15 Actual	15/16 Actual	16/17 Projected	17/18 Projected	18/19 Projected	19/20 Projected	20/21 Projected	21/22 Projected	22/23 Projected	23/24 Projected	24/25 Projected	25/26 Projected
<b>Revenues (\$000)</b>													
Performing Arts Tax	6,922	7,460	7,656	7,530	7,776	8,086	8,415	4,369	-	-	-	-	-
Facility Revenue	905	899	975	1,446	1,305	1,345	1,388	1,427	1,469	1,513	1,559	1,606	1,654
Interest Income	8	10	9	0	-	8	31	54	62	0	0	-	-
<b>Total Revenues</b>	<b>7,835</b>	<b>8,369</b>	<b>8,640</b>	<b>8,976</b>	<b>9,081</b>	<b>9,438</b>	<b>9,834</b>	<b>5,849</b>	<b>1,532</b>	<b>1,513</b>	<b>1,559</b>	<b>1,606</b>	<b>1,654</b>
<b>Expenditures (\$000)</b>													
Personnel Costs	1,813	1,828	2,017	2,291	2,368	2,410	2,489	2,551	2,579	2,655	2,707	2,820	2,851
Materials and Supplies	112	107	105	221	226	232	238	244	250	256	263	269	276
Fees and Services	509	495	442	949	1,032	1,060	1,089	1,119	1,150	1,181	1,214	1,248	1,282
Capital Outlay	-	-	-	-	-	25	32	28	29	29	30	31	32
CIP - Cash Funded	-	100	258	1,058	1,131	1,026	1,022	1,071	1,051	-	-	-	-
Debt Service	5,928	5,924	5,924	3,438	3,429	3,428	3,434	-	-	-	-	-	-
Internal Service Charges	247	472	497	512	519	531	543	555	568	581	595	609	623
<b>Total Expenditures</b>	<b>8,609</b>	<b>8,927</b>	<b>9,242</b>	<b>8,469</b>	<b>8,705</b>	<b>8,711</b>	<b>8,846</b>	<b>5,568</b>	<b>5,626</b>	<b>4,704</b>	<b>4,809</b>	<b>4,976</b>	<b>5,064</b>
<b>Net Operating Surplus/(Deficit)</b>	<b>(774)</b>	<b>(558)</b>	<b>(602)</b>	<b>507</b>	<b>376</b>	<b>727</b>	<b>988</b>	<b>281</b>	<b>(4,094)</b>	<b>(3,190)</b>	<b>(3,250)</b>	<b>(3,371)</b>	<b>(3,411)</b>
<b>Accrual Basis Adjustments</b>	<b>6</b>	<b>1</b>	<b>465</b>										
<b>Ending Fund Balance</b>	<b>694</b>	<b>137</b>	<b>(0)</b>	<b>507</b>	<b>883</b>	<b>1,610</b>	<b>2,598</b>	<b>2,879</b>	<b>(1,215)</b>	<b>(4,406)</b>	<b>(7,656)</b>	<b>(11,027)</b>	<b>(14,437)</b>
<b>Fund Balance as a % of Revenue</b>	<b>9%</b>	<b>2%</b>	<b>0%</b>	<b>6%</b>	<b>10%</b>	<b>17%</b>	<b>26%</b>	<b>49%</b>	<b>-79%</b>	<b>-291%</b>	<b>-491%</b>	<b>-687%</b>	<b>-873%</b>

Approximately 90% of the revenue in the Performing Arts Fund is derived from the City's 0.1% Arts Sales Tax. The rest is received from users of the Tempe Center for the Arts (TCA).

Revenues have not been sufficient to cover expenditures and the fund balance has been depleted. Half of the debt issued to build the TCA was retired in 2015-16, resulting in a \$2.5 million reduction of the annual debt service cost. Going forward, an annual surplus will grow the fund balance to approximately \$2.9 million by 2020, when the Arts Tax expires and the remaining debt is retired. Projected revenues have been reduced since the November forecast and projected expenditures have been increased. The annual structural deficit after 2020 is projected to reach \$4 million. Proposed increases to capital expenditures that will be considered during the current CIP process have not been incorporated into the current forecast.

Forecast Growth Rates - February 16, 2017

Revenues	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21
Taxable Sales Growth	1.4%	3.3%	4.0%	4.1%	3.8%
General Fund Sales Tax Revenue <sup>(1)</sup>	1.3%	3.3%	4.0%	4.1%	3.8%
Total Sales Tax Rate	1.8%	1.8%	1.8%	1.8%	1.8%
General Fund	1.2%	1.2%	1.2%	1.2%	1.2%
Transit Fund	0.5%	0.5%	0.5%	0.5%	0.5%
Performing Arts Fund	0.1%	0.1%	0.1%	0.1%	0.1%
Primary Property Tax Levy Growth	5.8%	5.2%	4.0%	4.0%	4.0%
Bed Tax Taxable Sales Growth	22.1%	3.5%	3.5%	3.3%	3.2%
Bed Tax Rate	5.0%	5.0%	5.0%	5.0%	5.0%
City Population Growth	1.4%	1.4%	1.4%	1.4%	1.4%
State Population Growth	1.5%	1.7%	1.8%	1.8%	1.8%
State Shared Income Tax Growth	10.7%	2.6%	3.0%	4.3%	3.9%
State Shared Sales Tax Growth	1.8%	3.8%	4.3%	4.7%	4.7%
State Vehicle License Tax Growth	14.7%	4.9%	4.8%	4.6%	4.1%
Building and Trades Growth	-32.3%	-9.6%	2.5%	2.5%	2.6%
Cultural and Recreational Growth	-9.2%	-1.9%	3.9%	3.9%	4.0%
Fees, Fines, Forfeitures Growth	-12.7%	-18.0%	3.9%	3.9%	4.0%
Business Licenses Growth	-8.0%	-1.6%	2.5%	2.5%	2.6%
<b>Expenditures</b>					
Personnel Costs Growth <sup>(2)</sup>	4.1%	3.7%	3.3%	2.6%	2.7%
FICA (% of payroll)	7.7%	7.7%	7.7%	7.7%	7.7%
State Retirement (% of payroll)	11.48%	11.50%	11.92%	11.92%	11.54%
Police Retirement (% of payroll)	45.68%	56.57%	61.92%	62.83%	63.63%
Fire Retirement (% of payroll) <sup>(3)</sup>	49.13%	60.66%	67.64%	69.34%	70.88%
Health, Dental, Life Actives	7.7%	7.7%	7.7%	7.7%	7.7%
Health, Dental, Life Retirees	10.4%	9.2%	-7.1%	-5.3%	0.9%
Mediflex Growth	93.0%	5.0%	0.0%	0.0%	0.0%
Other Fringe Benefits Growth	27.3%	1.1%	0.0%	0.0%	0.0%
General Inflation	1.6%	2.3%	2.5%	2.5%	2.6%
Electricity Inflation	3.3%	3.3%	3.3%	3.3%	3.3%
Water Inflation	4.8%	0.0%	4.8%	4.8%	4.8%
Sewer Inflation	2.5%	0.0%	2.5%	2.5%	2.5%
Gasoline Inflation	-5.2%	6.1%	10.3%	10.9%	7.3%

Notes:

<sup>(1)</sup> The 0.2% temporary sales tax expired 7/1/14.

<sup>(2)</sup> Excluding OPEB Trust Fund Advance/Withdrawal

<sup>(3)</sup> Net of Fire Insurance Premium Tax credit